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STATE FOR WHA/CAR/ (WBENT), WHA/EPSC (JSLATTERY)

SANTO DOMINGO FOR FCS AND FAS

TREASURY FOR L LAMONICA

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TAGS: [ECON](#) [EFIN](#) [JM](#)

SUBJECT: REMITTANCES REMAIN A STABLE SOURCE OF FUNDING FOR JAMAICA

REF: 04 KINGSTON 000050

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SUMMARY  
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11. (U) A steadily increasing number of Jamaican breadwinners no longer live in Jamaica, choosing instead to work overseas and support extended families through payments wired home from abroad. Remittances sent by overseas Jamaican workers remained the most prominent source of external funding for Jamaica in 2004. At the end of the year, remittances stood at USD 1.5 billion, up 15.5 percent. The buoyant remittances continued to be underpinned by increased labor migration and the entry of more players into the remittance business. Traditionally, remittances have been used to satisfy basic needs, but technological advances and other initiatives have increased the amount going toward growth and development. Despite the obvious immediate benefit to the recipients, some fear that remittances can foster idleness and provide an avenue for money laundering and terrorist financing. This has prompted the GOJ to initiate legislation to regulate the industry. Notwithstanding, remittances are set to expand as a new wave of emigration intensifies due to difficult economic and social conditions in Jamaica. End Summary.

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REMITTANCES CONTINUE TO GROW  
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12. (U) A steadily increasing number of Jamaican families are dependent on the supplemental money sent home by family members who work overseas. Total remittances to Jamaica increased by 15.5 percent in 2004 to reach USD 1.5 billion or 16.7 percent of GDP. At this level, remittances remained the country's largest source of foreign exchange earnings, eclipsing tourism receipts for a second consecutive year. Remittances for 2004 were about 110 percent of merchandise exports and 200 percent of Foreign Direct Investment (FDI). Remittances have also remained one of the most robust sources of foreign exchange for Jamaica, averaging USD 1.1 billion and increasing by 85.7 percent between 2000 and 2004. Indeed, a Jamaica Chamber of Commerce (JCC) survey conducted in the first quarter of 2005 found that almost 40 percent of all Jamaicans receive remittances, with 51 percent of these recipients reporting an inflation-adjusted increase in funds relative to three years ago. This performance is not surprising given that Jamaicans continue to emigrate in response to economic opportunities abroad and economic and social ills at home. Jamaica's Ministry of Foreign Affairs and Foreign Trade estimates that over two million Jamaicans now live overseas, with over 750,000 in the US, 500,000 in the UK and 400,000 in Canada. These estimates include Jamaicans living abroad both legally and illegally.

13. (SBU) Jamaica remains the highest per capita recipient of remittances in the Western Hemisphere and possibly the world. At the end of 2004, per capita remittances were about USD 550. Executive Director Joan-Marie Powell and Marketing Manager Noel Greenland of Western Union (WU) in Jamaica told emboffs that working-class Jamaicans remit, on average, about USD 187 per transmission to family members for expenses such as food, school fees and clothing. This is consistent with the findings of the JCC's survey, which showed that 21 percent of recipients use the money for school fees, 37 percent of recipients use it for utility bills, 39 percent for general household expenses and 42 percent for other personal expenses. The study also found that at least 28 percent of recipients receive remittances every month, with older people most likely to receive these monthly sums. Remittances also make up a significant portion of the incomes of many local households and serve as a social safety net, helping to alleviate poverty. According to Senior Manager of Jamaica National Building Society (JNBS), Leesa Kow, over 80

percent of remittances handled by her company go to women, who account for the majority of the country's unemployed and poverty stricken.

#### ----- NEW CHANNELS OPENING UP -----

14. (SBU) The remittance business in Jamaica was traditionally dominated by Jamaican commercial banks, but in recent years transfer companies and building societies have captured most of the market by intensifying their promotional efforts and widening their network to facilitate the smooth and expeditious transfer and collection of funds by clients. When asked about the size of the market commanded by WU, Powell and Greenland, in an obvious attempt to downplay their dominant position, said they strongly suspected WU was the largest player, but were not certain due to the lack of data. After some prompting, Powell admitted that WU was indeed the largest player, accounting for about 65 percent of the business. She hastened to add, though, that they did not want to be accused of monopolizing the market and driving up costs. Greenland then stated that no single entity could monopolize the business, since barriers to entry were so low. When asked the same question, Kow proudly told emboffs that JNBS controlled about 25 percent of the business, much of which it captured from WU due to lower costs and technological advantages.

15. (SBU) Almost 60 percent of Jamaica's remittances come from the US, mostly from Florida, Connecticut, New Jersey and New York, home for most US-resident Jamaicans. The United Kingdom, Canada and the Cayman Islands are also major sources of remittances. Collectively, these four diaspora communities account for over 95 percent of the total remittances to Jamaica. Greenland told emboffs that remittances from the US have been leveling off in recent years and the UK had become the new growth market, a situation he attributes to a new wave of emigration to that country.

#### ----- COSTS AND COMPETITION -----

16. (SBU) Despite the buoyancy in remittances, the cost for sending money to Jamaica remains one of the highest in the region. When the WU representatives were told the USG was concerned about the high cost for remitting money to the region, they said they were aware of the concerns. They then opined that the USG interest was actually coming from lobbyists for American commercial banks, which wanted a share of the lucrative business, despite neglecting it years ago. Powell said American-based banks had traditionally shied away from the business because of the low returns relative to paperwork. She pointed to Citibank Jamaica, the previous agent for WU, which subsequently shed the business in an overhaul of its operations. Powell then told emboffs that their costs had declined by six percentage points to nine percent since discussions on cost cutting measures began. Greenland added that high interest and telecoms costs remained two of the biggest obstacles to reducing prices even further. In a clear swipe at the perceived rivalry with banks, Greenland stated that banks were not the most convenient outlets for remittances in Jamaica, anyway, due to their limited reach, short opening hours, and burdensome paperwork.

17. (SBU) Notwithstanding the decline in the cost for sending money through the dominant player, WU, other actors remain far more competitive. National Commercial Bank offers a low cost option through Senvia Money Services for prices ranging from 0.25 percent from the Cayman Islands for up to CD 2,500 (USD 3,050) to one percent from the UK for up to 500 pounds (USD 937). Kow, who is also a former employee of WU, told emboffs that JNBS has always been at least 15 percent cheaper than the competition, although the high cost of new technology investment has slowed the pace of price reductions. USAID and JNBS have also initiated a project to further reduce the cost of sending money to Jamaica. The company has introduced a swipe card technology that will improve efficiency and increase convenience for customers. Over 21,000 people have signed up to use this facility, of which about 60 percent are women. The introduction of cards has already reduced costs by five to ten percent. These savings will be channeled into an educational fund to purchase computers for schools in rural communities during the project.

#### ----- THE EFFECTS OF REMITTANCES -----

18. (SBU) Remittances impact significantly on Jamaica's economy, as they represent a stable source of foreign

exchange, which contributes to the country's reserves. In addition, the practice creates a business that adds to GDP and provides a source of employment. Remittances also augment some individuals' incomes, which increases disposable income and, by extension, the amount of funds available for savings and investment. While the vast majority of remittances are used for consumption, this money still generates a positive multiplier effect for the rest of the economy. The recently released JCC report also showed that at least 63 percent of Jamaicans sometimes save some of their remittances, while the remaining 37 percent never save any of their remittances. However, the economy could benefit even further if a larger portion of the flow could be leveraged for savings and development. Recognizing this fact, a remittances program was formulated in 2004 as part of former Ambassador Cobb's Building Bridges, IPLEDGE Initiative (REFTEL). Projects under IPLEDGE were designed to enable corporate sponsors to provide educational supplies to needy schools. The first project was launched by WU, in partnership with USAID. These types of initiatives are apparently set to continue, as Greenland told emboffs that plans are far advanced for WU to pump another USD 200,000 into primary education. The company has also started to offer electronic options and will soon allow recipients to access their funds from savings accounts. This, combined with the JN/USAID initiative, should increase the pool of savings available for investment.

19. (SBU) Despite many virtues, remittances also carry their fair share of disadvantages. Most of the returns from remittances are the end result of the emigration that took place in the 1970s and again from the late 1990s to the present. Executive Director of the University of the West Indies' Development and Endowment Fund (UWIDEF), Nicole Sharpe, told emboffs that a large number of the UWI's almost 80,000 graduates now reside overseas. When asked about the impact of this brain drain on Jamaica, Sharpe said, "it is a Catch 22 situation because there are just not enough opportunities here". "There is a definite need for more entrepreneurs and that is why we are looking forward to developing a leadership institute to develop entrepreneurs", Sharpe continued. Sharpe said that the "remittance culture" in Jamaica also encourages idleness, thereby providing a disincentive for some people to work. The JCC study found that 46 percent of Jamaicans in the 18 to 24 age group, the most in any age cohort, receive remittances. This age cohort also accounts for almost 30 percent of Jamaica's unemployed. The effects can already be seen in the corporate sector, as aluminum processor Jamalcoa has expressed concerns about the availability of skilled labor to carry out its expansion plans.

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NEW REGULATIONS ANTICIPATED  
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10. (SBU) The possibility of money laundering and terrorist financing has also prompted the GOJ to pass legislation to regulate the operations of money transfer and remittance agents and agencies. This is welcome news for Greenland, who thinks regulation will make information more accessible. "Regulation of the business will also rid the discussions of innuendos which can jeopardize reputations", Greenland continued. When asked for her opinion on the pending regulation of the business, Kow was not as upbeat. She said that, if done properly, it could help, but from all indications enough research was not being done by the GOJ. "If the first draft of the Act was implemented, it would have killed the business", Kow told emboffs. "Some of the regulations would even put workers at risk", she continued. She said this has pushed the sector to form an association, which is now working with the GOJ. Kow anticipates heavy investment in technology to comply with the new reporting regulations, which will result in increased cost of doing business. This, she opined, could stymie ongoing cost reduction measures.

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COMMENT  
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11. (U) Remittances are expected to remain strong over the short to medium term, given the need for lower cost skilled and unskilled workers in the US, Canada, the UK and the Cayman Islands. The slow-growing and aging population in developed countries will also increase the need for migrant labor. Continued economic stagnation and crime at home will also push Jamaicans to countries where greater opportunities abound. However, serious concerns remain about the impact of emigration on Jamaica's development.

12. (U) Despite attempts to reduce expenses, Jamaica remains a high cost destination. However, the renewed interest being shown by banks and other low cost players,

combined with improved technology by companies like JNBS, should help to drive costs lower in subsequent years. While Jamaica lags behind countries in Latin America in terms of leveraging remittances for development, much progress has been made in recent years. This should continue as lobbying efforts intensify at the international level. JNBS, in addition to its education project with USAID, has submitted a micro-business and a rural development project to the Canadian International Development Agency (CIDA) for joint funding. However, in order for Jamaica to be able to use remittances as a true development tool, it must shape a saving and long-term investment culture. Recipients have to be encouraged to view remittances not as an end in itself, but the means to economic independence. End Comment.

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